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Submission

To

THE ONTARIO COMMITTEE ON TAXATION

by the

ONTARIO HOSPITAL ASSOCIATION

Don Mills, Ontario

January, 1964

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SUMMARY

OBSERVATIONS & RECOMMENDATIONS

The Ontario Hospital Association is of the opinion:

1. (a) that despite continuing attention by hospitals and the Ontario Hospital Services Commission to the many factors affecting the provision of hospital care in this province, the addition of new beds along with rising prices and salaries and wages for hospital's employees, increased utilization of hospitals by the public, and scientific advances in medicine and technology, are resulting in steadily rising hospital costs;

(b) that although such costs reflect improved care to the citizens of Ontario, the very large annual sums required have necessitated increasingly substantial contributions to the hospital insurance plan from both the federal and provincial treasuries;

(c) that although the revenue from premiums still constitutes a major portion of the provincial contribution, premium income, as a percentage of the whole, has declined since 1959;

(d) that with less than 3% of the total eligible provincial population not insured as of December 31st, 1962, there can be little prospect of additional revenue of substance on the basis of new enrolments alone;

(e) that in the light of the existing financial demands by the hospital insurance plan on tax funds and the probability that further increases in such demands may be anticipated; and the fact that the premium rates have not been altered since the inception of the plan, serious consideration should be given to an increase in hospital insurance premiums in order to establish more adequately public awareness of the significance of the cost of health services and to supply additional revenues to help operate the plan;

2. that should there be a limit to the amounts of money that can be made available through tax sources, the need to maintain quality hospital care still must be met: Under such circumstances, it is recommended that most careful consideration be given to the restoration of authority to the individual hospital governing board to levy additional charges where indicated, the revenues from such charges to be retained by the hospital to cover services beyond those paid for by the Ontario Hospital Services Commission;

3. that although a community should continue to contribute to the capital cost of hospitals, it should be relieved to a greater extent of the major portion of the cost it presently bears: The continuing Association position in this matter is a recommendation for the sharing of hospital capital construction costs in the proportion of one-third each from federal, provincial and community sources, the latter to include municipal governments;

4. that since exemptions from sales tax that have been granted to hospitals have been most helpful in relation to both operating and capital financing, it is strongly recommended that the existing federal policy of total exemption from sales tax for hospitals be continued and that the Province of Ontario give serious consideration to providing public hospitals with total exemption status in relation to the retail sales tax of the province.

Mr. Chairman and Members,

Ontario Committee on Taxation:

1. The Ontario Hospital Association, an incorporated voluntary lay organization, has been in existence since 1924. Its 237 members comprise public general hospitals, sanatoria and special hospitals, both lay and religious, with a relatively small number of private hospitals of associate member status. The Association thus embraces all categories of hospitals in the province with the exception of the provincial mental hospitals and the majority of the private institutions.

2. Membership in the Association is voluntary and is maintained on an annual fee basis. In return, a variety of educational, consultative and advisory services is provided. The Association also acts as the central voice of the voluntary hospital system in this province and, to the extent that the problems and interests of a very diversified membership can be interpreted and condensed, every Association presentation of this type endeavours to reflect the point of view of member hospitals.

3. Certain highlights have marked the developing role of the Association. In 1941, supplementary letters patent were granted to enable the Association to inaugurate the Blue Cross Plan in the province which, at the height of its activity, provided $65,000,000 benefits yearly to approximately 2,500,000 subscribers and dependants. With the enactment of the Hospital Services Commission Act and the inception of the hospital insurance plan on January 1, 1959, the Blue Cross Plan was precluded by statute from offering basic hospitalization up to the standard ward level. The Plan, however, has continued to make available semi-private accommodation benefits and, at the present time, over 2,250,000 residents of the province are enrolled.

4. The Blue Cross Plan also makes available to residents of the province Extended Health Care benefits which provide coverage for prescription drugs, private duty nursing care by registered nurses, charges by surgical specialists

and anaesthetists over the Ontario Medical Association schedule of fees, appliances, and private room in hospital. These benefits are sold to groups only, on the basis of a deductible and subscriber sharing contract. At the present time, over 75,000 subscribers and dependants are covered by this contract.

5. The Blue Cross Plan, in addition, now offers two Prescription Drug Contracts:

(i) to employed groups, based on the payment for drugs obtained on the prescription of a medical doctor. This contract is sold with a small annual deductible but with no patient sharing beyond that deductible. At the present time, over 4,500 residents of the province are covered by this contract.

(ii) to individuals in the Owen Sound area on an annual fee basis. This is an experimental project providing enrolment opportunities for the entire community. It is anticipated that this facet of our coverage will supply valuable statistics regarding the use of prescription drugs in this province.

6. The Association has maintained a close contact not only with the public hospitals of this province but with many thousands of citizens and patients over its 39 years. This relationship is exemplified in the makeup of its own Board of Directors wherein trustees (approximately 3,800 citizens who give of their time without recompense to serve on local hospital boards) and administrators (the chief executive officers of hospitals) are represented. A further indication of this relationship is a valued liaison with the Hospital Auxiliaries Association of Ontario, also a voluntary organization whose 72,000 members continue to make a noteworthy contribution both in material assistance and in understanding between our hospitals and the communities they serve.

7. With such a background, the Association feels it is in a position to

present an informed and responsible point of view and appreciates this opportunity of placing its resources at the disposal of the Ontario Committee on Taxation.

Introduction

8. In accepting the invitation of the Ontario Committee on Taxation to submit a brief at these hearings, the Ontario Hospital Association exercised a responsibility to place on record a point of view which in some respects, at least, might not otherwise come before the Committee. Since it is being assumed the Committee will have access to provincial financial data, including sources of revenue and the allocation of these funds, it is considered that no useful purpose would be served in our attempting to provide, in detail, such data pertaining to the hospital field. Each year the Ontario Hospital Services Commission tables a comprehensive annual report on hospital operations, including operating statistics and costs, and each year the Chairman of the Commission presents to the legislature a report which embodies forecasts and trends as well. The Ontario Hospital Association does not have access to overall financial information beyond that which may be obtained from such official sources.

9. The Ontario Hospital Association, however, through its close voluntary association with the majority of hospitals in this province and its continuing committee activity involving the trustees, administrators and staffs of these institutions, does maintain a very real interest in the financial problems of hospitals in relation to both capital and operating costs. A comprehensive review of these, together with other major areas of hospital interest and concern, was tabled with the Royal Commission on Health Services in May, 1962. The Ontario Hospital Association has also submitted a brief to the Medical Services Insurance Enquiry which was heard on December 12th, 1963. This submission to the Ontario Committee on Taxation will contain references to and/or excerpts from these briefs but should this committee desire to obtain the full text of either brief, we shall

be glad to make these available.

Operating Costs

10. With the coming into effect of the Hospital Services Commission Act on January 1, 1959, and the reimbursement thereunder of hospital operating expenses through the Ontario Hospital Services Commission, a new era dawned for the public hospitals of this province. As was stated in our brief to the Royal Commission, the spectre of annual operating deficits and the countless hours of study and effort to raise funds to meet these deficits no longer exist to any significant degree. For this, the hospitals of the province are deeply appreciative.

11. Nevertheless, we are concerned that potentially serious problems exist in this financing structure for the operation of hospitals. In its approximate five years of operation, the amount of money required to operate the plan, including both payments to hospitals and the operating expenses of the Ontario Hospital Services Commission, has risen from $161,689,808 in 1959 to $249,642,016 in 1962(1). This is an increase of $87,952,208 or 54.3%. In an operation of this magnitude, there are many factors contributing to such an increase. These include additional numbers of beds being put into service, rising costs for goods and services, increased use of hospitals by the public and scientific advances in medicine and technology. Moreover, there is every indication that these costs will continue to rise.

12. Some of the major operating cost components in public hospitals for the periods under study are as follows:(2)

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(1) These figures are taken from the Statements of Income and Expenditure of the Ontario Hospital Services Commission: p. 13 and p. 9 of the Annual Reports for 1959 and 1962 respectively.

(2) These are gross operating costs, from which non-allowable costs and offset revenues have not been deducted. (Total gross operating costs were $197,611,203 and $293,732,655 for 1959 and 1962 respectively.) Sources: Table 20, O.H.S.C. Annual Report, 1959, p. 98; Table 21, O.H.S.C. Statistical Supplement to its Annual Report, 1962, p. 74.

	1959	1962	Increase
a) Salaries and wages	$126,278,958	$195,030,090	$68,751,132
b) Food	13,297,919	15,972,497	2,674,578
c) Drugs	8,226,188	10,929,774	2,703,586
d) Plant operation & maintenance	8,287,483	10,445,414	2,157,931
e) Medical and surgical supplies	7,035,501	9,345,295	2,309,794
f) Laundry, linen, housekeeping	3,625,315	4,824,818	1,199,503

The significant increase in salaries and wages reflects not only a general raising of remuneration levels for all categories of staff but also the additional numbers of beds placed into service and the personnel required to staff these facilities. As of December 31, 1959, the rated bed capacity of public hospitals was 31,519; the comparative figure as at December 31, 1962 was 36,158. Of this increase of 4,639 beds, 2,334 came into service in the year 1962 alone. Moreover, some 5,257 beds were under construction or approved (but not yet started) as at the end of 1962. Staffing shows a similar major increase. As of December 31, 1959, there were 49,637 full time and 6,726 part time employees in public hospitals. The comparative figures for December 31, 1962 were 64,240 and 9,951 respectively.(3)

13. Viewed in yet another light, the gross operating cost per bed not only shows a marked increase in the four years but it also indicates the major effect of adding a substantial number of beds to improve the quantity of care to be available as well as to meet the needs of an expanding population. By the simple expedient of dividing the number of rated beds (31,519) into the total gross operating cost in public hospitals ($197,611,203) a figure of $6,269 is obtained for 1959. A similar calculation for 1962 shows a comparative figure of $8,123 per bed. Thus, all cost components included, the additional 2,334 beds placed in service in 1962 might be said to have accounted for over $18,000,000 of an increase in this one year.

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(3) The foregoing bed and staffing data are taken from the following sources:

O. H. S. C. Annual Report, 1959, pp 14 and 51
O. H. S. C. Statistical Supplement to its Annual Report, pp xvii and xviii

14. The significance of these increases lies in the fact that from the beginning of the plan, a very high proportion of the population of the province has been enrolled: A total of 5.5 million in 1959 and approximately 6.2 million in 1962. This latter figure represents 97.3% of the total eligible provincial population. This, together with the fact that the premiums initially established have remained unchanged, indicates clearly that the major share of the money necessary to operate the plan has come from the provincial and federal treasuries. The following statistics, also taken from the Annual Reports of the Ontario Hospital Services Commission, show the extent and the nature of sources of income for the years 1959 and 1962 respectively:

		1959		1962	
a)	Premiums for insured services	$ 71,397,814*		$ 91,925,705	
	Less: proportion of premiums for improvement of care in provincial mental institutions	3,399,891**		4,377,414**	
		67,997,923	(42.5%)	87,548,291	(35.0%)
b)	Government of Canada	72,843,000	(45.5%)	114,183,000	(45.7%)
c)	Government of Ontario	18,600,000	(11.6%)	47,910,725	(19.1%)
d)	Investments & sundry income	443,610	(.3%)	225,666	(.1%)
		$159,884,533	(100.0%)	$249,867,682	(100.0%)

Notes:

*This figure is for ten months only. When the hospital insurance plan commenced, insured residents paid one month's premium and insurance coverage was provided for three months.

**Established at the inception of the plan as 10¢ and 20¢ respectively of the monthly premium rates of $2.10 and $4.20.

15. It will be seen that the proportion contributed by the province of Ontario in 1959 would have been very substantially reduced had premiums been received for a full twelve months. In any event, it might reasonably be assumed that, at the inception of the plan, the intent or the anticipation was that premiums would look after the provincial share to a major extent. The figures show

a much different picture. While net premium income was approximately $19.5 millions higher in 1962 than in 1959, the provincial government contributed $29.3 millions more in 1962 than it did in 1959. Moreover, with the federal contribution being maintained at virtually a fixed percentage of the total income in any one year, and with income requirements continuing to rise, the discernible trend is that the provincial government's share of the total income needed will increase, while the percentage available from premium income will decrease.

16. It is essential that sufficient funds continue to be made available since hospital care is not static. It reflects, as it must surely continue to do, population increases, growing demands for additional services, advances in medical and nursing tecnique and discoveries in the pharmaceutical and other therapeutic fields. These developments, many of which cannot fully be forecast, involve the acquisition of personnel, equipment, and a generally continuing advancement in qualifications and performance of hospital staff, particularly among the paramedical categories.

17. To our knowledge, most hospitals have made and are continuing to make sincere efforts to keep costs at a level consistent with the care which their staffs believe attainable and to which their patients are entitled. Improvements in efficiency and adherence to the best possible administrative organization can not in themselves keep hospital expenditures at a constant level: There must be opportunity and encouragement to progress if further advantage is to be gained from advances in medicine and the related sciences. To inhibit such progress would produce inevitable regression.

18. This Association is well aware that both the federal government and the province of Ontario are extremely hard pressed to find revenues to meet their financial obligations and expansion of programmes. It is such an awareness that prompted our recommendation to the Medical Services Insurance Enquiry on December 12,

1963, that the financial implications of the proposed Bill 163 be very carefully evaluated lest necessary health care programmes already in existence be adversely affected. We believe, moreover, that the public should be encouraged to understand that its increasing use of hospital care facilities and its demands for an even greater degree of care must be reflected in some form of increased taxation. The public, as the consumer of the service, also pays the bill. Undoubtedly, many citizens fully realize this economic truth but it is our view that a significant number of the population look upon the hospital insurance premium as the measure of the cost of the programme and somehow believe hospitals can be operated within the limits of the funds thus raised. The very substantial contribution of both provincial and federal governments to the hospital insurance plan from general revenues is not generally recognized nor appreciated. So long as the premium is stabilized, the fact that subsidization is occurring to an increasing extent may not readily be seen.

19. It is our opinion that serious consideration should be given to an increase in hospital insurance premiums. The determination of the extent to which these rates need rise is not within our jurisdiction but it is suggested that they should be increased substantially. An increase in insurance premiums might not be welcomed but it appears to be a desirable step in this instance to establish more adequately the significance of the cost of health services and, in addition, to supply much needed revenues. We realize some special arrangements might have to be made for the lower income groups whose ability to meet even existing premiums from limited means remains a problem. Several devices for subsidized premium payments for these people are available and could be developed to avoid additional hardship for this particular group of citizens. We would reiterate that adequate funds for the hospital insurance plan must be assured if present standards are to be maintained and reasonable provision made for improvements in the future. We believe the insurance premium must provide a more realistic share of these costs.

Additional Considerations

20. Despite the cost of providing increased hospital care in the province, as demonstrated by the recorded figures of the past five years, it is clear that if our citizens wish to enjoy the standard of care to which they have become accustomed, the costs of making this care avilable will continue to rise during the foreseeable future. We believe this to be a very realistic eventuality, warranting special consideration.

21. A basic problem in the existing programme of government-sponsored hospital insurance appears to be that government has promised the people very extensive coverage when hospital care is required. The government has also said, and may be compelled to a greater extent in future to say to hospitals, "This is what we have promised: It is up to you to deliver but we have only so much money to pay for it." The situation is further complicated in Ontario by provisions of the Regulations under The Hospital Services Commisssion Act (Reg. 238, as amended, Section 43) wherein hospitals are prohibited from levying any extra charge for insured services beyond those approved and paid by the Commission or for private or semi-private accommodation.

22. It has been recognized that there may be a limit to the amounts of money that can be made available through tax sources. It is also reiterated that, for reasons already stated, the quality of hospital care should not be determined on the basis of limited tax funds alone. The Ontario Hospital Association is of the opinion that, under such circumstances, most careful consideration should be given to the restoration of authority, to the individual hospital governing boards, to levy additional charges where needed. This would require the removal of restrictions provided under Regulation 238, as amended, Section 43, of the Hospital Services Commission Act. It is the further opinion of this Association that funds

accruing from such a source of revenue to the hospitals would be retained by them to cover services beyond those paid for by the Commission.

23. The implementation of such a plan might affect the existing formula for sharing the costs of the programme of hospital insurance as set down in Federal Bill 320, The Hospital Insurance and Diagnostic Services Act. Accordingly, representations would be required to have that Act amended in order that funds so raised would not be considered as offset revenues to the hospital operating costs to be reimbursed to the province on the formula basis.

24. An important feature of the acceptance by the provincial and the federal government of the foregoing proposal would be the placing in the hands of an individual hospital board its proper responsibility for ensuring that the quality of care provided by its hospital was in keeping with the desires of the local community or centre. In this way, the fundamental values inherent in the voluntary hospital system of this province could be maintained and strengthened.

Capital Costs

25. Whereas operating costs are reimbursed under the hospital insurance plan of this province, capital costs are exluded. The latter, including buildings and equipment classified as capital, must be provided out of funds raised at the community level and from federal and provincial grants. Similarly, no depreciation on capital is reimbursible under the hospital insurance plan although depreciation on non-capital equipment is allowed.

26. The historical development of this situation to the present time is that the individual community is required to raise the major share of the money necessary to construct its hospital. It is true that with increased grants the percentage contributed by the community has been somewhat reduced over the years.

However, as recorded in our brief to the Royal Commission on Health Services, the total dollars required for construction has been increasing (see Appendix A). Thus, the individual municipality, with very little prospect of expanding revenues, is still faced with a considerable outlay. The following tables, also excerpted from our brief to The Royal Commission on Health Services, and reflecting a representative study of 40 hospital construction projects, illustrate the community's situation:

Distribution of Cost of Construction Between Governments & Community

1950 and 1960

	Province of Ontario Contribution	Federal Contribution	Contributed by the Community
1950	12.4%	10.2%	77.4%
1960	22.8%	16.9%	60.3%

The various components of the 60.3% contributed by the community in 1960 were as follows (the percentages in the "Total" line are the proportions each source of funds bears to the overall 60.3%):

Type of Hospital	Grants to Hospital from Municipality		Cash, Bequests, Trusts, etc, at Time of Approval		Campaign Pledges Outstanding		Loans by Hospital for Balance		Community's Share of Cost
Voluntary Lay Hospitals	20.3%	+	24.8%	+	11.1%	+	3.0%	=	59.2%
Sister Hospitals	19.4%	+	6.2%	+	18.7%	+	18.6%	=	62.9%
Municipal Hospitals	47.6%	+	9.7%	+		+	.3%	=	57.6%
TOTALS	23.0%	+	16.0%	+	14.0%	+	7.3%	=	60.3%

27. The Ontario Hospital Association subscribes to the view that a community should continue to contribute to the capital cost of one of their most important public services but that some relief should be considered as to the amount of such a contribution. Our viewpoint in this respect is unchanged from that expressed to the Royal Commission on Health Services. At that time this Association referred to

a resolution that had been adopted by our member delegates, recommending that the sharing of capital construction costs be in the proportion of one-third each from the three contributing groups, i.e. federal, provincial, and community, the latter to include municipal governments. This formula has been adopted as well by the Canadian Hospital Association, the national organization of which the Ontario Hospital Association is a member, and representations on the matter have been made by that organization to the federal authorities concerned.

28. It is gratifying that the government of this province has, within the past few months, increased its grants for hospital construction from $2,000 to $3,200 per bed and from $2,000 to $3,200 for supporting service areas. The Ontario Hospital Association, on behalf of its member hospitals, is appreciative of this consideration. The full import of this increase, in net terms, will not be known until figures are available but it constitutes a step towards the equal sharing concept outlined in the preceding paragraph. The delegates to the annual convention of this Association in October, 1963, adopted a resolution calling for representations to federal authorities, through the Canadian Hospital Association, for matching federal grants.

Sales Tax Considerations

29. For a considerable period of time, public hospitals have enjoyed a tax exemption privilege, in relation to the Federal Sales Tax, which applies to merchandise purchased for the sole use of the hospital. This privilege has been a valid and important consideration in connection with the operating and capital construction costs of hospitals. Shortly after the introduction of the Retail Sales Tax by the Province of Ontario, a lengthy list of items peculiar to hospital use were exempted from the tax on such purchases by hospitals. These exemptions have been most helpful, particularly as they relate to supplies and equipment required in the construction of new hospitals and additions to existing

facilities.

30. The Ontario Hospital Association strongly recommends that the federal sales tax exemption for hospitals be continued and that the Province of Ontario give serious consideration to providing public hospitals with total exemption status in relation to the retail sales tax of the province.

Concluding Comment

31. The Ontario Hospital Association appreciates the opportunity of placing its views on record at this time. We have endeavoured to present a considered viewpoint on the significant problems that exist and might be anticipated for the future in relation to the financing of hospital care in this province. In so doing, only the general principles have been highlighted and it is possible that further elaboration of some or all of these may be desirable. The Association, to the extent of its ability, would be pleased to provide whatever additional information may be helpful to the Committee.

APPENDIX A

(EXCERPT FROM THE BRIEF OF THE ONTARIO HOSPITAL ASSOCIATION TO THE ROYAL COMMISSION ON HEALTH SERVICES, MAY, 1962)

HOSPITAL CONSTRUCTION AND CAPITAL GRANTS, 1947-1961

(Thousands of Dollars)

Year	Provincial Construction	Federal Construction	Total Construction Grants	Provincial Special Capital
1947-48	$ 1,037	....	1,037	....
1948-49	2,187	48	2,235	....
1949-50	2,253	2,292	4,545	....
1951	2,163	2,085	4,248	....
1952	7,450	1,709	9,159	1,550
1953	7,522	3,723	11,245	6,861
1954	4,072	1,990	6,062	7,070
1955	7,736	2,282	10,018	5,271
1956	5,269	3,712	8,981	5,454
1957	3,837	3,106	6,943	5,765
1958	2,060	1,913	3,973	5,837
1959	6,257	3,663	9,920	4,472
1960	7,450	6,584	14,034	2,321
1961	10,000	8,866	18,866	2,449
Total	$69,293	$41,973	$111,266[a]	$47,050[b]

a) The first three columns do not show the total construction costs. The $111,266,000 accounted for in the table represents about 31% of the approximate $350,000,000 to which hospitals committed themselves in the period shown.

b) The "Provincial Special Capital" column refers to a distribution of monies which were made available for such purposes as debt reduction, rehabilitation of plant, and, capital equipment. In 1954, a uniform grant of $300 per bed was made and this figure was reduced to $200 per bed for the succeeding four years. In 1959, the grant was reduced to $150 per bed and in 1960 was still further reduced to $75 per bed at which figure it has remained to the present year.

APPENDIX B

ONTARIO HOSPITAL ASSOCIATION

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